U. S. SENATE
Republican Policy Committee
Don Nickles, Chairman Doug Badger, Staff Director 347 Russell Senate Office Building (202)224-2946

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__Clinton's Student Loan Scare__

To Tell The Truth...

President Clinton and his liberal cronies are running another scare campaign. First, they accused us of trying to starve school children; then they accused us of trying to deprive the poor and elderly of medical care; now they are accusing us of trying to deprive the neediest students from getting an education. To tell the truth...

We *Do Not* Deprive __Anyone__ From Getting an Education

- As the Chairman of the Senate Committee on Labor and Human Resources, Senator Nancy Landon Kassebaum, declared:
- There is **nothing** in this [reconciliation] package which limits the amount of loan funds available.
- There is **nothing** in this package which limits the ability of a student to qualify for a federal loan.
- There is **nothing** in this package which increases the cost of a loan to a student who is in school.

We *Do Not* Cut Student Loans

- We will make more loans available next year than ever in the three-decade history of the student loan program, rising from 6.6 million loans in 1995 to 7.1 million in 1996.
- We increase funding for student loans **nearly 50 percent** over the next seven years, from $25 billion in 1995 to $36 billion in 2002.

We *Do Not* Eliminate the In-School Interest Subsidy

- The Clinton Administration claimed that Congress' balanced budget proposal would eliminate the in-school interest subsidy, where the federal government pays the interest on a subsidized Stafford loan while the borrower is in school. This was not true then, this is not true now. The in-school interest subsidy for students remains intact.

- The Administration must have been thinking about the October 3, 1994, "Big Choices" memorandum by its own Office of Management and Budget Director, Alice Rivlin, which made a recommendation to "charge in-school interest for Stafford Loans" [p. 8].

We *Do Not* Eliminate the Six-Month Grace Period

- Students will not have to make any loan payments during the six-month period following graduation.
- Students who are currently in the loan program will continue to receive the federal interest subsidy during the grace period.
- For new borrowers who enter the student loan system after December 31, 1995, the grace period will remain intact, but when payments begin borrowers will repay the interest accrued during that six-month period.
- This parallels the "real life" experiences of students who buy washing machines, furniture, or cars on credit. While they may not have to make a down payment, or make payments for six months, interest still accrues from the time of purchase.

We *Do Not* Raise the Loan Origination Fee on Students

- The loan origination fee, paid by the student as an out-of-pocket expense, will not be increased.
- The fee will remain at the current level of 3 percent for guaranteed loans and 4 percent for direct loans.

We *Do Not* Eliminate the Scheduled Interest Rate Reduction

- Students will be able to benefit from the scheduled interest rate reduction for new loans effective July 1998.
- Students will save money when the rate on student loans changes from 91-day U.S. Treasury bills plus 3.1 percent to 10-year Treasury bonds plus 1 percent: an undergraduate who borrows $17,125 over four years will save $549; an undergraduate who borrows the $46,000 maximum will save $2,114.

We *Do Not* Impose a Tax on Schools

- According to the CBO's "scoring," the new fee on each participating school, which will be equal to 0.85 percent of the federal student and parent loans made available to students attending that school, is not a tax.

- The fee will be applied, as a condition of their participation, to institutions which clearly benefit from the availability of federal student loans.

- Post-secondary schools are one of the major beneficiaries of federal student aid programs: Pell Grants and federal loans provide over 45 percent of all student aid in the United States today.

- Even if schools choose to pass through 100 percent of the costs of the new fee, students will not be overly burdened. Increased costs per student for a typical public university would be around less than $7 a year and for a typical private university would be less than $22 a year.

We *Do Not* Create a $1.8 Billion "Slush Fund"

- We did not plot to turn over $1.8 billion in reserve funds to the guaranty agencies. These reserves accumulated over a 30-year period, mainly through federal contributions to a fund for guaranty agencies to protect against future default claims.

- Due to a staff error, there was an inaccurate cross-reference in the legislative language which could have ceded federal ownership of these reserves. We found the error; we fixed the error.

- This provision is not contained in the bill as reported.

We *Do* Expand Repayment Options for Students

- Unlike President Clinton and his liberal cronies, we expand repayment options. Students with guaranteed loans will have the same repayment terms enjoyed by students with direct loans, including extended repayment and income-contingent repayment.

- Students with guaranteed loans will be allowed to consolidate their loans into the direct loan consolidation program if they cannot find a bank willing to consolidate their loans or willing to offer income-contingent repayment.

We *Do* Achieve $10.9 Billion in Savings Over 7 Years

- Savings will be achieved without gouging students. None of the changes to the student loan system will increase the cost of a loan to a student who is in school.

- The only additional cost to students will occur after they graduate and will apply to new borrowers only: the payment of interest accrued during the six-month grace period. For the typical college graduate (who borrowed $17,125 for four years) this will increase monthly payments by less than $6 (less than the cost of a small Domino's pizza).

- Savings will be achieved without gouging parents. The PLUS program interest rate will increase from 3.1 percent to 4 percent, meaning a $3 per month increase to the monthly payment on an average PLUS loan of $5,200.

- Nearly 70 percent of the savings, $7.45 billion, comes from sources other than graduates and parents.

We *Do* Roll Back the Federal Direct Loan Program

- The direct loan volume will be capped at 20 percent of total loan volume, effective July 1, 1996. Meanwhile, it will be frozen at its current level of 30 percent instead of rising to 60 percent as scheduled.

- Savings from changes to the direct loan program, including capping direct loans at 20 percent, cutting administrative costs and introducing state risk sharing, total $1.488 billion.

- Given that loan terms will be comparable for guaranteed and direct loans, the roll back will not affect students; but it will affect taxpayers -- ***they'll see lower taxes and a balanced budget in 2002.***

We *Do* Stop the Federal Take-Over of the Student Loan Program

- The taxpayer already has been paying part of the price of the bureaucratic expansion of the Department of Education to administer the direct loan program -- $2.5 billion and over 500 new employees by 1997.

- In 1994, with a direct loan volume of only 5 percent, the Department of Education disbursed $700 million in direct loans, yet has failed to account for nearly 15 percent of them. In other words, the government has "lost" almost $100 million of the taxpayers' money [*Forbes Magazine*, 5/22/95, p.126].

- Considering this track record, it is surprising that the Clinton Administration keeps pushing for a complete federal take-over of the student loan program. Under the terms of the Administration's direct lending proposal, the Department of Education would become the nation's third largest consumer lending institution.

We *Do* Keep Our Promise to Reach a Balanced Budget

- According to former CBO Director Rudolph (Rudy) Penner, currently Managing Director of KPMG Peat Marwick: "under the president's proposal to move to direct lending, about $140 billion will be added to the public debt during the 1996-2000 period..."

- According to the CBO, our student loan package will save $10.9 billion by the year 2002.

- Today's students will save money if we succeed in balancing the budget: according to Federal Reserve Chairman Alan Greenspan, a balanced budget will lower interest rates by a minimum of 2 percent for everyone.

- Today's students will lose money if our efforts to balance the budget are stymied: a college education will mean very little if the economy is crushed by an overwhelming debt burden.

Prepared by RPC Fellow: Pamela Weimann
Staff Contact: Eric Ueland, 224-2946